

103^D CONGRESS
1ST SESSION

H. R. 2219

To amend the Higher Education Act of 1965 to achieve savings in the operation of the student loan programs under part B of title IV of that Act, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 20, 1993

Mr. GORDON (for himself and Mr. GOODLING) introduced the following bill;
which was referred to the Committee on Education and Labor

A BILL

To amend the Higher Education Act of 1965 to achieve savings in the operation of the student loan programs under part B of title IV of that Act, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. FINDINGS.**

4 The Congress finds the following:

5 (1) The current public/private partnership has
6 succeeded in fulfilling the mission set for it by Con-
7 gress—delivering loans to students reliably and in a
8 timely fashion—and as such should be preserved.

1 (2) The current Federal Family Education
2 Loan (FFEL) program is, however, in need of re-
3 form. Many important positive changes were made
4 during the reauthorization of the Higher Education
5 Act in the 102d Congress, but further changes are
6 needed to make the FFEL program more efficient.

7 (3) It would be preferable to improve on a pub-
8 lic/private partnership that is known to work rather
9 than dismantle it in favor of an unproved direct
10 Government lending program, which would increase
11 the Federal debt, further enlarge the Federal bu-
12 reaucracy, add major new financial oversight activi-
13 ties to the already overburdened Department of
14 Education, and force the Congress to depend on es-
15 timated savings which may prove illusory.

16 (4) The large Direct Lending Demonstration
17 Program that was begun by the Higher Education
18 Amendments of 1992 is only now getting started. It
19 would be better to allow this Demonstration Pro-
20 gram to proceed and show some results before ex-
21 panding it to cover the entire federally insured stu-
22 dent lending system.

23 (5) Reforming the FFEL system with the im-
24 mediate savings and efficiencies that are contained
25 in this bill will in no way prevent the passage and

1 implementation of legislation that would begin a Na-
2 tional Service Program, as proposed by the Presi-
3 dent.

4 (6) Reforming the current FFEL system will
5 produce immediate savings without increasing the
6 size and debt of the Federal Government. It will also
7 assure students and their parents that they will con-
8 tinue to receive the funds they need for higher edu-
9 cation when they need them.

10 **SEC. 2. INTEREST RATES.**

11 Section 427A of the Act (20 U.S.C. 1077a) is amend-
12 ed—

13 (1) by redesignating subsection (h) as sub-
14 section (i); and

15 (2) by inserting after subsection (g) the follow-
16 ing new subsection:

17 “(h) IN-SCHOOL AND GRACE PERIOD INTEREST
18 RATES.—

19 “(1) APPLICABLE RATE.—Notwithstanding any
20 other provision of this section, with respect to any
21 loan for which the first disbursement is made on or
22 after October 1, 1993, the applicable rate of interest
23 for interest which accrues—

24 “(A) prior to the beginning of the repay-
25 ment period of the loan, or

1 “(B) during the period in which principal
 2 need not be paid (whether or not such principal
 3 is in fact paid) by reason of a provision de-
 4 scribed in section 428(b)(1)(M) or
 5 427(a)(2)(C),
 6 shall not exceed the rate determined under para-
 7 graph (2).

8 “(2) METHOD OF CALCULATION.—For purposes
 9 of paragraph (1) the rate determined under this
 10 paragraph shall, during any 12-month period begin-
 11 ning on July 1 and ending on June 30, be deter-
 12 mined on the preceding June 1 and be equal to—

13 “(A) the bond equivalent rate of 91-day
 14 Treasury bills auctioned at the final auction
 15 prior to such June 1; plus

16 “(B) 2.6 percent.”.

17 **SEC. 3. LOAN TRANSFER FEES.**

18 Section 428(b)(2) of the Act (20 U.S.C. 1078(b)(2))
 19 is amended—

20 (1) by striking “and” at the end of subpara-
 21 graph (E);

22 (2) by striking the period at the end of sub-
 23 paragraph (F) and inserting “; and”; and

24 (3) by adding at the end thereof the following
 25 new subparagraph:

1 “(G) provide that, if a lender or holder, on
2 or after October 1, 1993, sells, transfers, or as-
3 signs a loan under this part, then the transferee
4 shall pay to the Secretary a transfer fee in an
5 amount equal to 0.25 percent the principal and
6 accrued unpaid interest of the loan.”.

7 **SEC. 4. RISK SHARING.**

8 (a) GUARANTY AGENCY REINSURANCE PERCENT-
9 AGE.—Section 428(c)(1) of the Act (20 U.S.C.
10 1078(c)(1)) is amended—

11 (1) in subparagraph (A), by striking “100 per-
12 cent” and inserting “96 percent”;

13 (2) in subparagraph (B)(i), by striking “90 per-
14 cent” and inserting “86 percent”; and

15 (3) in subparagraph (B), by striking “80 per-
16 cent” and inserting “76 percent”.

17 (b) RISK SHARING BY THE STUDENT LOAN MARKET-
18 ING ASSOCIATION.—

19 (1) GSL PROGRAM.—Section 428(b)(1)(G) of
20 the Act is amended by inserting before the semicolon
21 at the end thereof the following: “, except that for
22 loans held by the Student Loan Marketing Associa-
23 tion (other than loans made pursuant to section
24 439(q)) such percentage shall be 90 percent”.

1 (2) FISL PROGRAM.—Section 425(b)(1) of the
2 Act is amended by inserting after “interest” in the
3 matter preceding clause (i) the following: “, except
4 that for loans held by the Student Loan Marketing
5 Association (other than loans made pursuant to sec-
6 tion 439(q)) such liability shall be 90 percent of
7 such unpaid balance, and”.

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to any loan on which a default
10 (as defined in section 435 of the Act) occurs on or after
11 the date of enactment of this Act.

12 **SEC. 5. SHARES OF POST-DEFAULT COLLECTIONS.**

13 Section 428(c)(6) of the Act (20 U.S.C.
14 1078(c)(6)(A) is amended by adding at the end the follow-
15 ing new subparagraph:

16 “(D) Subparagraph (A)(ii) shall be applied with
17 respect to determinations of the Secretary’s equi-
18 table share of payments made by borrowers—

19 “(i) during fiscal years 1994 and 1995, by
20 substituting ‘27 percent’ for ‘30 percent’; and

21 “(ii) during fiscal year 1996 and succeed-
22 ing fiscal years, by substituting ‘26 percent’ for
23 ‘30 percent’.”.

1 **SEC. 6. FEDERAL ADMINISTRATIVE EXPENSES.**

2 (a) ADMINISTRATIVE COST ALLOWANCES.—Section
3 428(f)(1)(B) of the Higher Education Act of 1965 (20
4 U.S.C. 1078(f)(1)(B)) is amended by striking “1 percent”
5 and inserting “0.50 percent”.

6 (b) REINSURANCE FEES.—Section 428(c) of the Act
7 is amended—

8 (1) by striking paragraph (9); and

9 (2) by redesignating paragraph (10) as para-
10 graph (9).

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to loans made on or after October
13 1, 1993.

14 **SEC. 7. PLUS LOAN AMOUNTS AND DISBURSEMENTS.**

15 (a) LOAN AMOUNTS.—Section 428B(b) of the Act
16 (20 U.S.C. 1078–2(b)) is amended to read as follows:

17 “(b) LIMITATIONS ON AMOUNTS OF LOANS.—

18 “(1) ANNUAL LIMIT.—Subject to paragraph
19 (2), the maximum amount parents may borrow for
20 one student in any academic year or its equivalent
21 (as defined by regulation of the Secretary) is
22 \$10,000.

23 “(2) LIMITATION BASED ON NEED.—Any loan
24 under this section may be counted as part of the ex-
25 pected family contribution in the determination of
26 need under this title, but no loan may be made to

1 any parent under this section for any academic year
2 in excess of (A) the student's estimated cost of at-
3 tendance, minus (B) other financial aid as certified
4 by the eligible institution under section
5 428(a)(2)(A). The annual insurable limit on account
6 of any student shall not be deemed to be exceeded
7 by a line of credit under which actual payments to
8 the borrower will not be made in any year in excess
9 of the annual limit.”.

10 (b) MULTIPLE DISBURSEMENT REQUIRED.—

11 (1) AMENDMENT.—Section 428B(c) of the Act
12 is amended by inserting after “under this section”
13 the following: “shall be disbursed in accordance with
14 the requirements of section 428G and”.

15 (2) CONFORMING AMENDMENTS.—Section
16 428G(e) of the Act (20 U.S.C. 1078–7(e) is amend-
17 ed—

18 (A) by striking “PLUS, CONSOLIDATION,”
19 and inserting “CONSOLIDATION”; and

20 (B) by striking “section 428B or 428C”
21 and inserting “section 428C”.

22 (3) FISL AMENDMENT.—Section 427(b)(2) of
23 the Act (20 U.S.C. 1077(b)(2)) is amended by strik-
24 ing “section 428B or 428C” and inserting “section
25 428B”.

1 **SEC. 8. CONSOLIDATION LOAN SAVINGS.**

2 (a) INTEREST RATES.—

3 (1) REDUCTION OF RATES.—Section
4 428C(c)(1)(B) of the Act (20 U.S.C. 1078–
5 3(c)(1)(B)) is amended to read as follows:

6 “(B) Except as provided in subparagraph (C),
7 a consolidation loan shall bear interest at an annual
8 rate on the unpaid principal balance of the loan that
9 is equal to the lesser of—

10 “(i) the weighted average of the interest
11 rates on the loans consolidated, rounded to the
12 nearest whole percent; or

13 “(ii) for any 12-month period beginning on
14 July 1 and ending on June 30, determined on
15 the preceding June 1 that is a rate equal to—

16 “(I) the bond equivalent rate of 52-
17 week Treasury bills auctioned at the final
18 auction before such June 1; plus

19 “(II) 3.10 percent.”.

20 (2) 9 PERCENT CEILING.—Section
21 428C(c)(1)(C) of the Act is amended by striking out
22 “not less” and inserting “not more”.

23 (b) LIMITATION OF INTEREST SUBSIDY DURING
24 DEFERMENT.—Section 428C(c)(4)(C) of the Act is
25 amended to read as follows:

1 “(C)(i) provides that periodic installments
2 of principal need not be paid, but interest shall
3 accrue and be paid in accordance with clause
4 (ii), during any period for which the borrower
5 would be eligible for a deferral under section
6 428(b)(1)(M), and that any such period shall
7 not be included in determining the repayment
8 period pursuant to subsection (c)(2) of this sec-
9 tion; and

10 “(ii) provides that interest shall accrue and
11 be paid—

12 “(I) by the Secretary, in the case of
13 a consolidation loan that consolidated only
14 Federal Stafford Loans for which the stu-
15 dent borrower received an interest subsidy
16 under section 428; or

17 “(II) by the borrower, or capitalized,
18 in the case of a consolidation loan other
19 than one described in subclause (I);”.

20 (c) LENDER FEES.—Section 428C(c) of the Act is
21 amended by adding at the end the following new para-
22 graph:

23 “(6) INSURANCE FEE FROM LENDERS.—Each
24 lender shall pay to the Secretary, by quarterly in-
25 stallments, an annual amount equal to 0.5 percent

1 of the average principal amount outstanding on
2 loans under this section held by the lender, as deter-
3 mined in accordance with such regulations as the
4 Secretary shall prescribe.”.

5 (d) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to loans for which the first dis-
7 bursement is made on or after October 1, 1993.

8 **SEC. 9. DATE OF DEFAULT DETERMINATIONS.**

9 (a) AMENDMENTS.—Section 435(l) of the Act (20
10 U.S.C. 1085(l)) is amended—

11 (1) by striking “180 days” and inserting “270
12 days”; and

13 (2) by striking “240 days” and inserting “330
14 days”.

15 (b) CONFORMING AMENDMENT.—Section
16 428(c)(1)(A) of the Act (20 U.S.C. 1078(c)(1)(A)) is
17 amended by striking the last sentence and inserting the
18 following: “A guaranty agency shall file a claim for reim-
19 bursement under this subsection within 45 days after the
20 agency’s discharge of its insurance obligation, except that
21 when a guaranty agency discharges its insurance obliga-
22 tion prior to 360 days after a loan becomes delinquent
23 with respect to any installment thereon, the guaranty
24 agency shall file a claim under this subsection within 45

1 days after the loan becomes 360 days delinquent with re-
2 spect to any such installment.”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply on and after October 1, 1993.

5 **SEC. 10. SPECIAL ALLOWANCES ON TAX EXEMPT FUNDS.**

6 (a) SPECIAL ALLOWANCE AMENDMENT.—Section
7 438(b)(2)(B) of the Act (20 U.S.C. 1087–1(b)(2)(B)) is
8 amended—

9 (1) by striking the first sentence of division (i)
10 and inserting the following: “The quarterly rate of
11 the special allowance for holders of loans which were
12 made or purchased with funds obtained by the hold-
13 er from the issuance of obligations, the income from
14 which is exempt from taxation under the Internal
15 Revenue Code of 1986, shall be 85 percent of the
16 quarterly rate of the special allowance established
17 under subparagraph (A).”;

18 (2) by striking division (ii); and

19 (3) by redesignating division (iii) as division
20 (ii).

21 (b) PURCHASE PREMIUMS.—Section 438(d)(2) of the
22 Act is amended—

23 (1) by striking subparagraph (C); and

1 (2) by redesignating subparagraphs (D), (E),
2 and (F) as subparagraphs (C), (D), and (E), respec-
3 tively.

4 (c) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to loans made on and after October
6 1, 1993.

7 **SEC. 11. LENDER ORIGINATION FEES.**

8 Section 438 of the Act (20 U.S.C. 1087–1) is amend-
9 ed—

10 (1) in the heading of subsection (c) by inserting
11 “FROM STUDENTS” after “ORIGINATION FEES”;

12 (2) by redesignating subsections (d) and (e) as
13 subsections (e) and (f), respectively; and

14 (3) by inserting after subsection (c) the follow-
15 ing new subsection:

16 “(d) ORIGINATION FEES FROM LENDERS.—

17 “(1) DEDUCTION FROM INTEREST AND SPECIAL
18 ALLOWANCE SUBSIDIES.—Notwithstanding sub-
19 section (b), the total amount of interest and special
20 allowance payable under section 428(a)(3)(A) and
21 subsection (b) of this section, respectively, to any
22 holder shall be reduced by the Secretary by an origi-
23 nation fee in an amount determined in accordance
24 with paragraph (2) of this subsection. If the total
25 amount of interest and special allowance payable

1 under section 428(a)(3)(A) and subsection (b) of
2 this section, respectively, is less than the amount of
3 such origination fee, the Secretary shall deduct such
4 excess amount from subsequent quarters' payments
5 until the total amount has been deducted.

6 “(2) AMOUNT OF ORIGINATION FEES.—Subject
7 to paragraph (3) of this subsection, with respect to
8 any loan (other than loans made under sections
9 428A, 428B, 428C, and 428H) for which a com-
10 pleted note or other written evidence of the loan was
11 sent or delivered to the borrower for signing on or
12 after July 1, 1993, the amount of the origination fee
13 which shall be deducted under paragraph (1) shall
14 be equal to 1 percent of the principal amount of the
15 loan.

16 “(3) SLS, PLUS, CONSOLIDATION, AND
17 UNDSUBSIDIZED LOANS.—With respect to any loans
18 made under section 428A, 428B, 428C, and 428H
19 and disbursed on or after October 1, 1993, each eli-
20 gible lender under this part shall pay to the Sec-
21 retary an origination fee of 1 percent of the prin-
22 cipal amount of the loan.

23 “(4) DISTRIBUTION OF ORIGINATION FEES.—
24 All origination fees collected pursuant to this section
25 on loans authorized under section 428A, 428B,

1 428C, or 428H shall be paid to the Secretary by the
2 lender and deposited in the fund authorized under
3 section 431 of this part.”.

4 **SEC. 12. LENDER-OF-LAST-RESORT REQUIREMENT.**

5 Section 439(q)(1)(A) of the Act (20 U.S.C. 1087–
6 2) is amended by “may begin” and inserting “shall
7 begin”.

8 **SEC. 13. STUDENT LOAN MARKETING ASSOCIATION STUDY.**

9 Section 439 of the Act is further amended by adding
10 at the end thereof the following new subsection:

11 “(s) TRANSITION STUDY AND ACTIVITIES.—(1) The
12 Secretaries of Education and the Treasury, in consultation
13 with the Association, shall prepare a study, to be com-
14 pleted within 6 months of the enactment of this provision,
15 which shall examine alternatives concerning the status, op-
16 erations, and purposes of the Association. Such alter-
17 natives shall include providing for an orderly transition of
18 the Association from a Government-Sponsored Enterprise
19 to a private corporation. Such study shall—

20 “(A) consider how best to meet the needs of
21 students and taxpayers for financing for postsecond-
22 ary education;

23 “(B) reflect the need for the Association to
24 maintain liquidity and perform other functions for
25 the Federal Education Loan program;

1 “(C) consider any appropriate changes to part
2 D of title VII, relating to the College Construction
3 Loan Insurance Association; and

4 “(D) be considered by the Secretaries of Edu-
5 cation and the Treasury in developing any legislative
6 proposals concerning any changes to the status of
7 the Association as a Government-Sponsored Enter-
8 prise or its duties under the Federal Family Edu-
9 cation Loan program.

10 “(2) The Secretaries of Education and the Treasury
11 are directed to work with the Association to ensure that
12 any changes in the Association’s status, operations, or
13 purposes are carried out efficiently and effectively.”.

14 **SEC. 14. REPAYMENT OPTIONS.**

15 (a) REGULATIONS REQUIRED.—The Secretary of
16 Education shall, not later than 60 days after the date of
17 enactment of this Act—

18 (1) prescribe the regulations required for the
19 implementation of the income sensitive repayment
20 options pursuant to section 428(b)(1)(E)(i) and
21 428(m) of the Act;

22 (2) take such steps as may be necessary—

23 (A) to inform borrowers under part B of
24 title IV of the Act of the availability of stand-

1 ard, graduated, and income sensitive repayment
2 options for student loans; and

3 (B) to ensure that lenders under such part
4 permit borrowers to fully exercise such options.

5 (b) CONFORMING AMENDMENTS.—Section 428(b)(1)
6 of the Act (20 U.S.C. 1078(b)(1)) is amended—

7 (1) in subparagraph (D)(ii), by inserting “ex-
8 cept as permitted pursuant to subparagraph (E),”;

9 (2) in subparagraph (E)—

10 (A) by striking “subparagraphs (D) and
11 (L)” and inserting “subparagraph (L)”;

12 (B) by inserting “or 428H” after “section
13 428A”;

14 (C) by inserting “under subsection (m)”
15 after “regulations of the Secretary”; and

16 (D) by striking “nor more than 10 years”.

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